

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-8 OF CHAIRMAN'S INFORMATION REQUEST NO. 8

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 8, issued on January 19, 2017. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 6, 2017

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1. Please refer to Library Reference USPS-FY16-4,¹ Excel file "FY 2016 FCM" tab "A-10 Retail Parcels." Please confirm that the volume labeled "Keys & ID Devices" are also included in the volume labeled "First Ounce." If not confirmed, please explain the discrepancy between cell J8 and the sum of cells J13:J15.

RESPONSE:

Confirmed.

¹ Library Reference USPS-FY16-4, December 29, 2016.

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2. Please identify which factors contributed to a substantial decrease in cost coverage, unit cost, and unit revenue, and a substantial increase in volume, for Competitive Outbound International Insurance from FY 2015 to FY 2016.

RESPONSE:

On January 17, 2016, the Postal Service began to provide competitive Outbound International Insurance up to \$200 for merchandise, and up to \$100 for document reconstruction for free on Priority Mail International (PMI) items,² except for PMI Small Flat Rate Envelopes and PMI Small Flat Rate Boxes.³ On August 28, 2016, the Postal Service implemented further changes to the Mail Classification Schedule, related to PMI Flat Rate Envelopes and PMI Small Flat Rate Boxes, which resulted in the Postal Service providing competitive Outbound International Insurance up to \$200 for merchandise and up to \$100 for document reconstruction for free on all PMI items.⁴ The total volume of Outbound International Insurance increased greatly because mailpieces with free insurance were included in the total, leading to the reductions in both unit revenue and unit cost.

At the same time, the costs for the indemnities and insurance claims for Outbound International Insurance increased, primarily due to the shift of costs from the UPU-specified indemnity, attributed to PMI before January 2016, but now attributed to

² See PRC Order No. 2814, Order Approving Changes in Rates of General Applicability for Competitive Products, Docket No. CP2016-9, November 13, 2015, Attachment at 183-184 of 199.

³ Mail Classification Schedule posted January 15, 2016, available at <https://www.prc.gov/mail-classification-schedule>, at 340, MCS section 2315.5,

⁴ See PRC Order No. 3250, Order Approving Changes to the Mail Classification Schedule related to Priority Mail International Flat Rate Envelopes and Priority Mail International Small Flat Rate Boxes, Docket No. MC2016-118, April 19, 2016, at 8, 18; See also Notice of the United States Postal Service of New Implementation Date for Changes to the Mail Classification Schedule related to Priority Mail International Flat Rate Envelopes and Priority Mail International Small Flat Rate Boxes, Docket No. MC2016-118, May 20, 2016.

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Outbound International Insurance. Secondly, there has also been an increase in total international indemnity claim costs.

The current definition of competitive Outbound International Insurance includes the free insurance for PMI. The Postal Service is considering options to address the impact of the recent changes to competitive Outbound International Insurance and to PMI on cost coverage for both products. The Postal Service intends to study whether it can separate the costs of PMI insurance for which no fee is paid, in order to assign those costs to the PMI product.

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3. Please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage [for Competitive Outbound International Insurance].

RESPONSE:

There were seven tallies for Competitive Outbound International Insurance. The coefficient of variation for IOCS-based costs is 39 percent. Incorporating only the variability of the IOCS-based cost, the cost coverage would range from 23 percentage points below the current point estimate to 46 percentage points higher.

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4. Please confirm that Outbound International Insurance is an optional supplementary service for letter post and parcels under the Universal Postal Union Convention. If confirmed, please discuss whether the Postal Service is required to provide Outbound International Insurance under any other bilateral agreement.

RESPONSE:

Confirmed. Insurance is an optional supplementary service for letter post and parcels under Article 15 of the Universal Postal Convention.

The Postal Service is not required to provide Outbound International Insurance under any other bilateral agreement.

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5. Please identify which factor(s) discussed in the Postal Service's Second Response to the ACD⁵ were most responsible for the year-over-year change in service performance. Please also discuss what steps the Postal Service plans to take to continue to improve service performance for Inbound Letter Post.

RESPONSE:

The Postal Service credits two specific factors with having the most impact on year-over-year change in such service performance:

- Changing the critical entry time (CET) for letters and flats from 1700 to 1500.
- Implementing the new process of emptying sacked letters into hampers and sending them loose to the Morgan Processing and Distribution Center (P&DC) for video facing and processing.

The Postal Service plans to continue efforts to improve service for Inbound Letter Post by performing weekly failure analyses of performance data and weekly reviews of such data with local processing management for improvement opportunities.

⁵ Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016, at Postal Service Responses to ACD Requests 1-4.

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- 6.** Please provide the Express Mail Service (EMS) Pay-For-Performance Plan for CY 2015 and CY 2016, and the amount of money the Postal Service forfeited, if any, as a result of penalties for not meeting the service features and performance requirements for Inbound EMS.

RESPONSE:

The requested plans are provided under seal as part of USPS-FY16-NP37 with the file names EMS PfP Plan 2015.pdf and EMS PfP Plan 2016.pdf. The requested data related to penalties are provided under seal as part of USPS-FY16-NP37 with the file name EMS Penalties CY15 CY16.pdf.

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7. Please refer to the January 13, 2017, Responses to CHIR No. 3, questions 31, 32.⁶ Please provide a timeline for the assessment of the PHI NSA. When the Postal Service reassesses the PHI NSA:
- a. Will the Postal Service amend or terminate the PHI NSA if the estimated net financial contribution of Contract Year 3 is negative? If a negative net financial contribution for Contract Year 3 will not lead to the amendment or termination of the contract, please explain.
 - b. Will the Postal Service amend or terminate the PHI NSA if the estimated net financial contribution of the entire contract (Contract Years 1-5) is negative? If a negative net financial contribution for the Contract overall will not lead to the amendment or termination of the contract, please explain.

RESPONSE:

- a. The Postal Service is currently working with PHI on potentially amending the contract.
- b. The Postal Service is currently working with PHI on potentially amending the contract.

⁶ Responses of the United States Postal Service to Questions 1-2, 4-9, 11-13, 15-19, 23, 28, and 31-33 of Chairman's Information Request No. 3, January 13, 2017 (January 13, 2017, Responses to CHIR No. 3).

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8. Please provide the currently available data [for the PHI NSA] for Contract Year 3, Quarters 1 and 2. If this data is not currently available, please explain and provide an estimate of when it will be available. Also, please provide the net financial contribution for Contract Year 3 based on currently available data using the approved methodology.

RESPONSE:

The currently available data for Contract Year 3 (Quarters 1 & 2) are contained in the Excel file electronically attached to this response. (In that Excel file, please note that the volume threshold values in cells I11:I14 do not reflect annual values, but rather the combined threshold values for Quarters 1 & 2.) We are not able to provide the net financial contribution for the entire Contract Year 3 using the approved methodology, because the Postal Service only has the information for the first two quarters of this contract year. The volumes were down in those quarters and no rebate was paid. The volume decline was caused by a significant, short-term business challenge at PHI due to a move in the summer of all inventory and fulfillment to a new warehouse, and the implementation of new warehouse management software. PHI notified the Postal Service in advance of the drastic cuts in mail volume that were necessary to reduce orders to match the capacity of the new start-up systems in order to provide acceptable customer service. The Postal Service has been told that PHI anticipates that volumes will return to historic levels and grow when the PHI warehouse and software issues are fully resolved in the next several months, and the Postal Service is monitoring the situation closely.